



Comprehensive Annual Financial Report

*Teacher's Retirement System
of the City of New York*



Fiscal Year Ended June 30, 2003
New York, New York

Comprehensive Annual Financial Report

**Teachers' Retirement Board
Teachers' Retirement System
of the City of New York**

**Fiscal Year Ended
June 30, 2003**

TEACHERS' RETIREMENT SYSTEM OF THE CITY OF NEW YORK

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
A PENSION TRUST FUND OF THE CITY OF NEW YORK
FOR FISCAL YEAR ENDED JUNE 30, 2003
Prepared by Accounting Units**

QUALIFIED PENSION PLAN

TEACHERS' RETIREMENT BOARD MEMBERS

Ms. MARTHA E. STARK
Chairperson

MR. MELVYN AARONSON
MR. PHILIP A. BERRY
MS. KATHEEN GRIMM

MS. MONA ROMAIN
MR. HORATIO H. SPARKES
MS. SANDRA MARCH

MR. STANLEY J. KESSOCK
Executive Director
Teachers' Retirement System

MR. PAUL J. RAUCCI
Chief Accountant
Teachers' Retirement System

MR. ROBERT C. NORTH, JR.
Chief Actuary

**TEACHERS' RETIREMENT SYSTEM
OF THE CITY OF NEW YORK**
55 Water Street
New York, NY 10041

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1. Introduction

TEACHERS' RETIREMENT SYSTEM OF THE CITY OF NEW YORK



TEACHERS' RETIREMENT BOARD
TEACHERS' RETIREMENT SYSTEM
55 Water Street, New York, N.Y. 10041

December 26, 2003

Dear Members of the Board of Trustees:

We are pleased to present herewith the Comprehensive Annual Financial Report of the Teachers' Retirement System of the City of New York (TRS) for the fiscal year ended June 30, 2003. Responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with TRS. To the best of our knowledge, the enclosed data is accurate in material respects and is reported in a manner designed to present fairly the financial position and results of the operations of TRS. All disclosures necessary to enable the reader to gain an understanding of the financial activities of TRS have been included.

The Comprehensive Annual Financial Report is presented in five sections: Introduction, Financial, Investment, Actuarial, and Statistical. The Introduction includes this transmittal letter, an organization chart, and a list of TRS' principal officials. The Financial Section includes Statement of Plan Net Assets Available for Pension Benefits, Statement of Changes in Plan Net Assets Available for Pension Benefits, the Independent Auditor's Report on the financial statements and schedules, and Management's Discussion and Analysis. The Investment Section includes investment information and tables that track investment yields and performance. The Actuarial Section contains the Actuary's certification letter, the Actuary's statements, a summary of actuarial assumptions and methods, and the actuarial tables. The Statistical Section includes financial and demographic information.

ECONOMIC CONDITION AND OUTLOOK—The performance of the Pension Fund yielded an annual return of 4.01%. The monthly unit value for the Variable A Annuity Program decreased from \$50.928 (July 2002) to \$49.115 (July 2003). Variable A had an annual return of 0.30%. The unit value for the Variable B Annuity Program decreased from \$19.744 (July 2002) to \$19.662 (July 2003), for an annual return of 3.57%. The annual returns include a 4% rate for the variable increment factor. The July unit value was based on the portfolio's return as of June 30.

HISTORY OF THE PLAN—TRS was established as of August 1, 1917 under Chapter 303 of the Laws of 1917 and is governed by the Administrative Code of the City of New York and the New York State Retirement and Social Security Law. TRS covers all the teachers and administrative personnel employed by the Department of Education and certain employees of the City University of New York.

MAJOR INITIATIVES REALIZED—In Fiscal Year 2003, TRS continued its commitment to enhance the services provided to our members. In November 2002, TRS introduced the Annual Benefits Statement (ABS), a new retirement planning tool, for in-service members. The ABS provides members with details about their benefits under the Qualified Pension Plan (QPP) and, if applicable, the Tax-Deferred Annuity (TDA) Program, in a reader-friendly format. These

TEACHERS' RETIREMENT SYSTEM OF THE CITY OF NEW YORK

personalized statements include a detailed breakdown of a member's service credit, benefit estimates for retirement-eligible members, and recent beneficiary designations.

This past fiscal year, TRS introduced several interactive features on our website. Eligible members may now conduct a variety of TRS transactions online, including making TDA elections, applying for QPP loans, updating their address information, and viewing their most recent TRS beneficiary designations.

Our member service enhancements will continue in Fiscal Year 2004. We will add more features to make our website even more useful to our members. In addition, TRS will relocate to a larger and more modern facility. Our new headquarters will include a state-of-the-art training facility and a spacious Walk-In Center, which can accommodate close to three times as many visitors as previously.

FINANCIAL INFORMATION—The management of TRS is responsible for establishing and maintaining an internal control structure designed to ensure that TRS' assets are protected from loss, theft, or misuse, and to guarantee that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that [1] the cost of a control should not exceed the benefits likely to be derived from it; and [2] the valuation of costs and benefits requires estimates and judgment by management.

SOURCE OF REVENUES—The funds needed to finance retirement benefits are accumulated through the collection of employer and member contributions and through income from investments. Contribution and investment income for Fiscal Year 2003 amounted to a total of \$1.5 billion.

REVENUES *In thousands*

| | Fiscal Year 2003 Amount | Fiscal Year 2002 Amount | Increase (Decrease) |
|------------------------------|----------------------------|----------------------------|------------------------|
| Member Contributions | \$ 81,877 | \$ 87,386 | \$ (5,509) |
| Employer Contributions | 640,195 | 509,932 | 130,263 |
| Other Employer Contributions | 20,720 | 22,020 | (1,300) |
| Other Receipts | (7,888) | (631) | (7,257) |
| Investment Income | 784,221 | (3,179,469) | 3,963,690 |
| TOTAL | \$1,519,125 | \$2,560,762 | \$4,079,887 |

EXPENDITURES—The primary expense of a retirement system relates to the purpose for which it was created, namely the payment of benefits. Consequently, recurring benefit payments and death benefits prescribed by the Plan and refunds of contributions to terminated employees comprise major expenses. Benefits paid in Fiscal Year 2003 amounted to \$2.4 billion, reflecting an increase of \$270 million in benefit expenses from Fiscal Year 2002. This increase in benefits was due to the cost-of-living adjustment to retirement benefits and the increase in the number of retirees and beneficiaries receiving benefits.

TEACHERS' RETIREMENT SYSTEM OF THE CITY OF NEW YORK

EXPENDITURES

In thousands

| | Fiscal Year 2003 Amount | Fiscal Year 2002 Amount | Increase (Decrease) |
|-------------------|----------------------------|----------------------------|------------------------|
| Benefits Paid | \$2,431,595 | \$2,161,677 | \$269,918 |
| Benefits Refunded | - | 27,357 | (27,357) |
| Administrative | 35,455 | 32,523 | 2,932 |
| TOTAL | \$2,467,050 | \$2,221,557 | \$245,493 |

INVESTMENTS—The Administrative Code of the City of New York authorizes the investments of plan assets subject to the terms, conditions, limitations, and restrictions imposed by law for investments by savings banks and domestic life insurance companies. The New York State Retirement and Social Security Law and the Administrative Code establish the criteria for permissible equity investments. Details concerning the criteria for TRS' investments may be found in the Notes to the Financial Statements.

PROFESSIONAL SERVICES—Consultants are appointed by the Teachers' Retirement Board to perform professional services that are essential to the effective and efficient operation of TRS. The Office of the Comptroller also provides investment services for the pension portfolio through independent advisors.

Actuarial services are provided by the Office of the Actuary of the City of New York, which is employed by the City's five major pension systems. The Chief Actuary's report and certifications are included in this Report.

The City's Corporation Counsel provides legal services to TRS in addition to private legal counsel providing services to the Variable Annuity and Tax-Deferred Annuity Programs.

Rocaton Investment Advisors, LLC is working as investment consultant to TRS.

All investment decisions are reviewed and approved by the Teachers' Retirement Board.

INDEPENDENT AUDIT—State statutes require an annual audit by independent certified public accountants. The accounting firm of Deloitte & Touche LLP was selected by the Teachers' Retirement Board. The Independent Auditor's Report on the financial statements and schedules is included in the Financial Section of this Report.

AWARDS—The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to TRS for its Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2002. This was the fifteenth consecutive year that TRS was accorded this prestigious award.

In order to be awarded a Certificate of Achievement, TRS published an easily readable and efficiently organized Comprehensive Annual Financial Report. This Report satisfied both the generally accepted accounting principles and the applicable legal requirements.

TEACHERS' RETIREMENT SYSTEM OF THE CITY OF NEW YORK

A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and are submitting it to the GFOA for consideration.

ACKNOWLEDGEMENTS—The compilation of the Report reflects the efforts of the TRS staff under the leadership of the Board of Trustees.

It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means for determining responsible stewardship for the assets contributed by the members and their employers.

The Report is available to both administrative personnel and members of TRS. We believe they will find this material informative and helpful.

This letter of transmittal is designed to complement Management's Discussion and Analysis and should be read in conjunction with it. The Teachers' Retirement System's Management's Discussion and Analysis can be found immediately after the report of the Independent Auditor.

Finally, we would like to take this opportunity to express our gratitude to the staff, the advisors, and the many people who have worked diligently to ensure the successful operation of TRS.

Sincerely,



Stanley J. Kessock
Executive Director



Paul J. Raucci
Chief Accountant

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Teachers' Retirement System of the City of New York

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

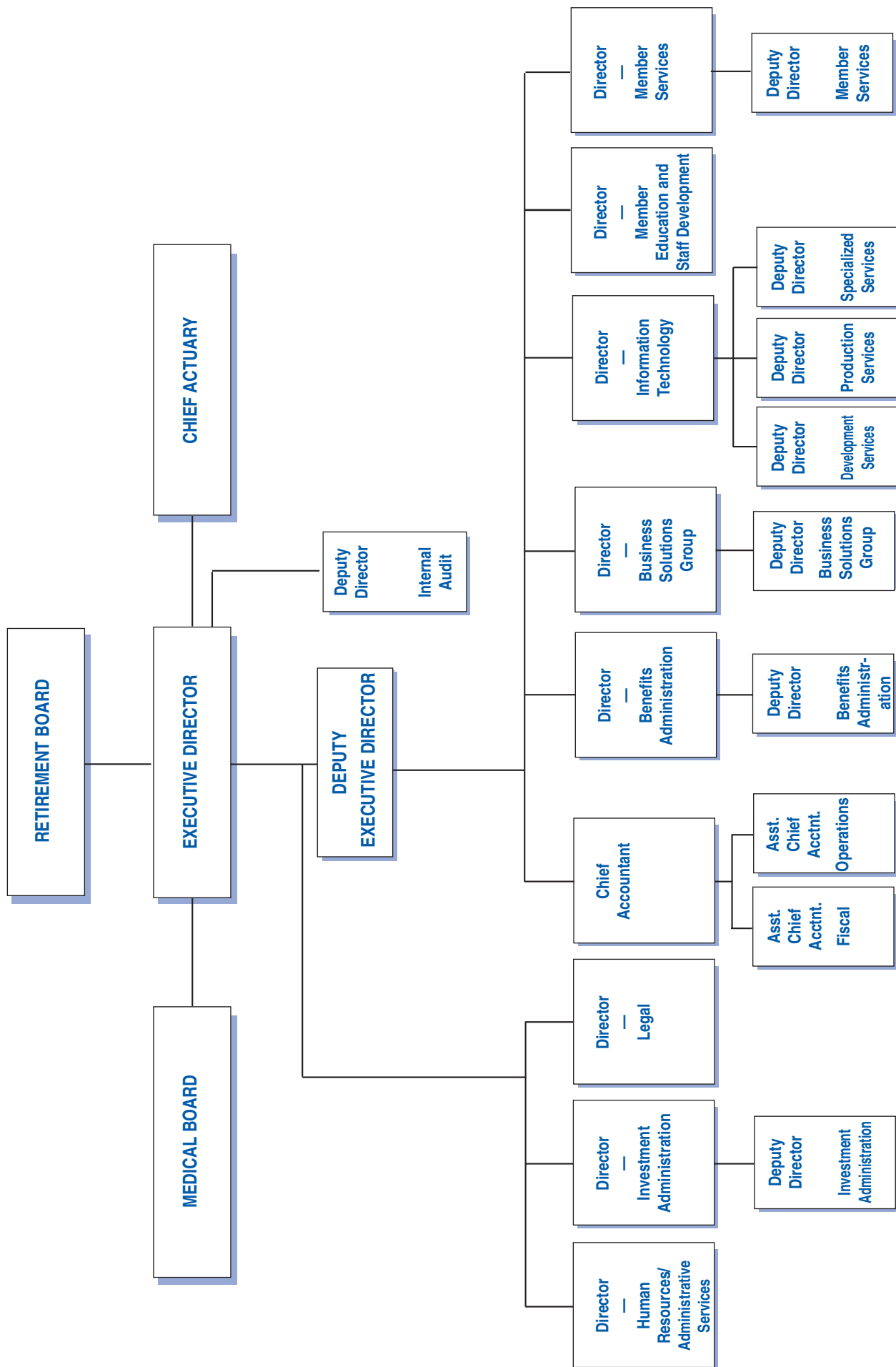


President

Executive Director

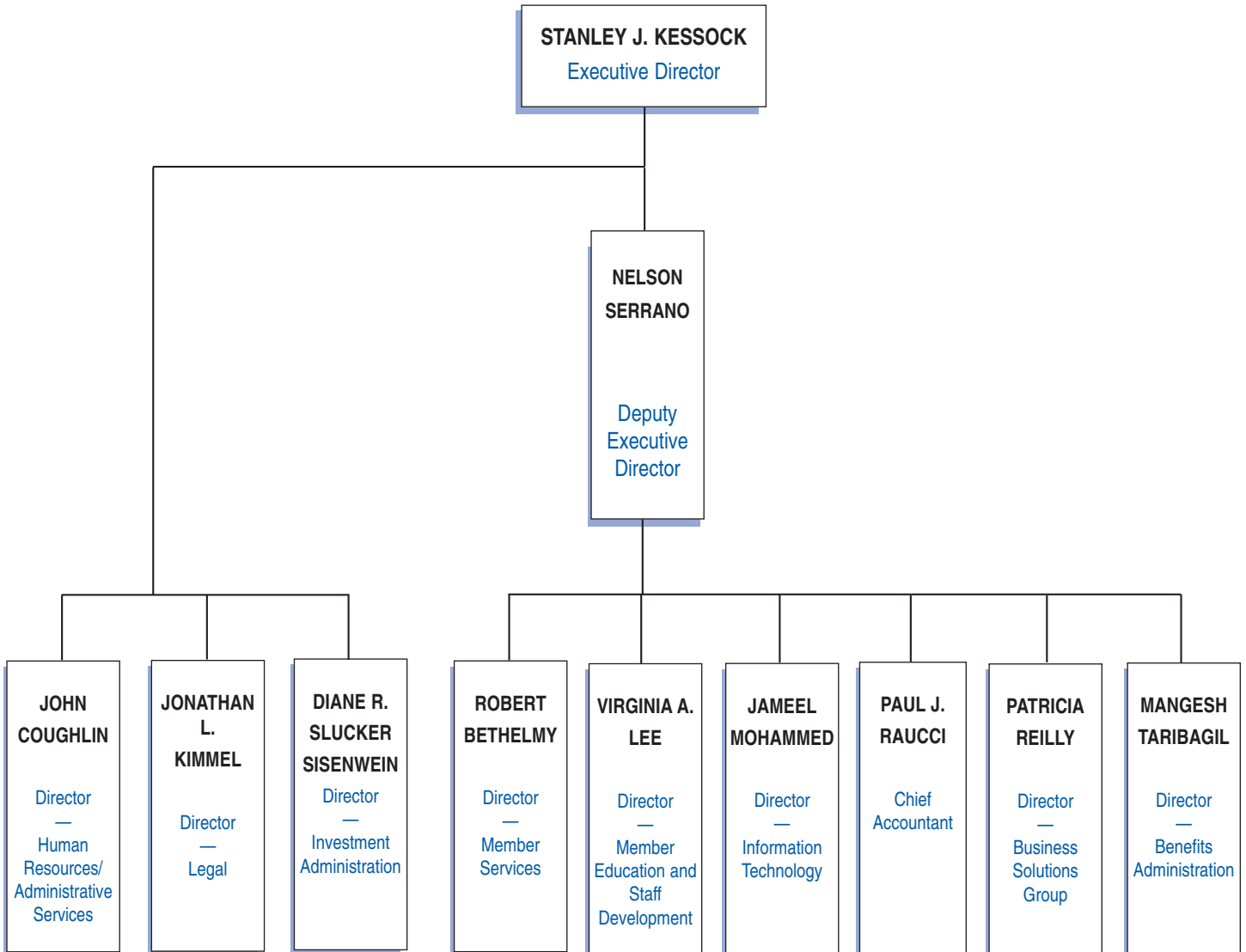
ORGANIZATION CHART

as of June 30, 2003



PRINCIPAL OFFICIALS

as of June 30, 2003





2. Financial Section

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Teachers' Retirement System of the City of New York Qualified Pension Plan

We have audited the accompanying statements of Plan net assets of the Teachers' Retirement System of the City of New York Qualified Pension Plan (the "Plan") as of June 30, 2003 and 2002, and the related statements of changes in Plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the net assets of the Plan as of June 30, 2003 and 2002, and the changes in its net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 5, during 2002, the Plan changed its method of accounting for member loans.

Management's Discussion and Analysis is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules listed in the table of contents are required by GASB. The required supplemental information is the responsibility of the management of the Plan. Such 2003 and 2002 information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole. The required supplemental information for the years ended June 30, 2001, 2000, 1999 and 1998 was not subjected to auditing procedures applied in the audit of the basic 2001 financial statements by other auditors whose report dated October 30, 2001, stated that they expressed no opinion on it.

The supplemental information included in the Introductory, Investment, Actuarial, and Statistical sections is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Plan. Such additional information has not been subjected to the auditing procedures applied in our audit of the financial statements and, accordingly, we express no opinion on it.

Deloitte & Touche LLP

October 27, 2003

TEACHERS' RETIREMENT SYSTEM OF THE CITY OF NEW YORK

**SCHEDULE 4: COMMISSIONS AND PAYMENTS
TO BROKERS AND CONSULTANTS
Year Ended June 30, 2002 (Unaudited)**

| INVESTMENT EXPENSES | | |
|---|--------------------|---|
| Investment Agent | Service | TRS' Share of Fees and Commissions Paid |
| FIXED ANNUITY PROGRAM | | |
| Aeltus Investment Mgmt., Inc. | Investment Manager | \$590,556 |
| AFL-CIO | Investment Manager | 103,346 |
| Allegra Capital Partners, IV, L.P. | Investment Manager | 129,223 |
| Alliance Capital Management L.P. | Investment Manager | 373,499 |
| Apollo Investment Fund | Investment Manager | 128,668 |
| Ariel Capital Mgmt Inc. - Mid. Cap. | Investment Manager | 227,672 |
| Ariel Capital Mgmt Inc. - Small Cap. | Investment Manager | 430,267 |
| Bank of Ireland Asset Management (U.S.) Ltd. | Investment Manager | 851,647 |
| Barclays Global Investors, N.A. | Investment Manager | 207,176 |
| BlackRock Financial Management - Corp. | Investment Manager | 207,508 |
| BlackRock Financial Management - Mortgage | Investment Manager | 336,587 |
| Blackstone Capital | Investment Manager | 40,451 |
| BZW Barclays Global Investors | Investment Manager | 113,267 |
| Canyon Johnson | Investment Manager | 58,575 |
| Capital Guardian Trust Co. (Domestic Eq.) | Investment Manager | 227,100 |
| Capital Guardian Trust Co. (Int'l.) | Investment Manager | 1,102,498 |
| Carlyne Partners III | Investment Manager | 250,287 |
| Chicago Eq. Partners | Investment Manager | 253,603 |
| Coller Capital | Investment Manager | 36,928 |
| Credit Suisse (BEA Associates) Corp. | Investment Manager | 89,707 |
| Credit Suisse (BEA Associates) Mgmt. | Investment Manager | 467,771 |
| Cypress Advisors | Investment Manager | 282,121 |
| Delaware International Advisors | Investment Manager | 995,044 |
| FdG Capital Partners L.L.C. | Investment Manager | 217,566 |
| Fischer, Francis, Trees & Watts, Inc. - Govt. | Investment Manager | 340,828 |
| Fischer, Francis, Trees & Watts, Inc. - Int'l | Investment Manager | 425,338 |
| Freeman Spogli | Investment Manager | 181,020 |
| GE Investment Management, Inc. | Investment Manager | 813,717 |
| Invesco Mid. Cap. | Investment Manager | 127,201 |
| Lend Lease Rosen | Investment Manager | 474,584 |
| Lincoln Capital Management Company - Govt. | Investment Manager | 95,754 |
| Lincoln Capital Management Company - Mortgage | Investment Manager | 287,559 |
| Lincolnshire Equity Fund | Investment Manager | 169,727 |
| Loomis, Sayles & Co., L.P. | Investment Manager | 1,289,140 |
| Lumina Ventures | Investment Manager | 23,109 |
| Mellon Capital Management Corporation | Investment Manager | 75,178 |
| Morgan Stanley (Domestic Eq.) | Investment Manager | 576,285 |
| Morgan Stanley (Emerging Mkt.) | Investment Manager | 826,131 |
| New Mountain Partners | Investment Manager | 179,262 |
| OCM Re Opp Fund | Investment Manager | 28,297 |
| Pacific Investment Management Company (PIMCO) | Investment Manager | 612,537 |
| Pimco Gov't Transition Acct. | Investment Manager | 264,333 |
| Putnam Institutional Management | Investment Manager | 491,565 |
| Ripplewood Partners | Investment Manager | 135,174 |
| Rowe Price Fleming International Inc. | Investment Manager | 935,012 |
| RRE Ventures 111 LP | Investment Manager | 136,591 |
| Schroder Capital Management Int'l., Inc. | Investment Manager | 587,205 |
| SCP Private Equity Partners | Investment Manager | 142,051 |
| Solera Partners | Investment Manager | 558,133 |
| Sprucegrove Investment Management Ltd. | Investment Manager | 373,379 |
| T. Rowe Price Associates, Inc. | Investment Manager | 278,582 |
| Taplin, Canida, Habacht | Investment Manager | 369,030 |
| W.R. Huff Asset Management Co., L.L.C. | Investment Manager | 1,315,988 |
| Westpeak Investment Advisors L.P. | Investment Manager | 306,699 |
| Consultant fees | | 702,012 |
| TOTAL FIXED ANNUITY PROGRAM | | \$20,842,487 |

Continued on page 2.27

TEACHERS' RETIREMENT SYSTEM OF THE CITY OF NEW YORK

SCHEDULE 6: ADMINISTRATIVE EXPENSES
Year Ended June 30, 2003 (Unaudited)

| | | |
|--|----------------|----------------------|
| PERSONNEL SERVICES | | |
| Staff Salaries | \$ 14,774,467 | |
| Social Security | 756,916 | |
| Insurance (Health) | 1,056,417 | |
| Welfare Benefit Fund | <u>606,508</u> | |
| TOTAL PERSONNEL SERVICES | | \$17,194,308 |
| PROFESSIONAL SERVICES | | |
| Data Processing and Contractual Services | | 14,908,790 |
| COMMUNICATION | | |
| Telephone | 139,906 | |
| Postage | 317,213 | |
| Traveling Expenses | <u>63,848</u> | |
| TOTAL COMMUNICATION | | 520,967 |
| RENTALS | | |
| Office Space | 1,345,407 | |
| Equipment Leasing | <u>201,437</u> | |
| TOTAL RENTALS | | 1,546,844 |
| MISCELLANEOUS | | |
| Utilities | 54,040 | |
| Supplies and Materials | 96,276 | |
| Maintenance, Repairs, and Services | 217,078 | |
| Office Equipment and Furniture | 13,729 | |
| Advertising Expenses | 51,778 | |
| Storage | 79,836 | |
| Printing | 646,843 | |
| Training Program | 116,073 | |
| Books | <u>8,913</u> | |
| TOTAL MISCELLANEOUS | | \$ 1,284,566 |
| TOTAL ADMINISTRATIVE EXPENSES* | | \$ 35,455,475 |

* Other administrative expenses of \$3,312,897 were paid on our behalf under Regulation 85 of the New York State Superintendent of Insurance Regulations.

See Notes of Financial Statements No. 7 for the Corpus Expenses.

TEACHERS' RETIREMENT SYSTEM OF THE CITY OF NEW YORK

**SCHEDULE 4: COMMISSIONS AND PAYMENTS
TO BROKERS AND CONSULTANTS (Continued)
Year Ended June 30, 2003 (Unaudited)**

| INVESTMENT EXPENSES | | |
|--|-----------------------|---|
| Investment Agent | Service | TRS' Share of Fees and Commissions Paid |
| VARIABLE A ANNUITY PROGRAM | | |
| Alliance Capital Management L.P. | Investment Manager | \$167,638 |
| Amalgamated Bank of New York | Investment Manager | 16,160 |
| Barclays Global Investors, N.A. – Int'l. Alpha Tilts | Investment Manager | 594,303 |
| Barclays Global Investors, N.A. – Int'l. EAFE | Investment Manager | 32,070 |
| Barclays Global Investors, N.A. – Russell 3000 | Investment Manager | 50,319 |
| Barclays Global Investors, N.A. – Tactical Asset | Investment Manager | 395,036 |
| Deutsch Bank Trust Co., New Hampshire | Investment Manager | 150,582 |
| Enhanced Investment Technologies, Inc. (INTECH) | Investment Manager | 651,937 |
| Fidelity Management Trust Company | Investment Manager | 533,901 |
| Freedom Capital Management L.L.C. | Investment Manager | 57,810 |
| Goldman Sachs Asset Management | Investment Manager | 697,433 |
| Mellon Capital Management Corporation – Russell 3000 | Investment Manager | 38,076 |
| Mellon Capital Mgmt. Corp. – Enhanced Asset Allocation | Investment Manager | 668,802 |
| New South Capital Management, Inc. | Investment Manager | 185,264 |
| PanAgora Asset Management, Inc. | Investment Manager | 382,643 |
| Putnam Advisory Company, Inc. | Investment Manager | 534,633 |
| Sound Shore Management, Inc. | Investment Manager | 296,758 |
| Trust Company of the West | Investment Manager | 97,626 |
| UBS Global Asset Mgt. Trust Co. | Investment Manager | 199,192 |
| Mellon Global Securities Services | Custodial Services | 97,713 |
| Interactive Data | Financial Information | 27,914 |
| Consultant fees | | 319,742 |
| TOTAL VARIABLE A ANNUITY PROGRAM | | \$ 6,195,552 |
| VARIABLE B ANNUITY PROGRAM | | |
| Certus Asset Advisors | Funding Advisor | 168,328 |
| Mellon Global Securities Services | Custodial Services | 6,703 |
| Consultant fees | | 104,593 |
| TOTAL VARIABLE B ANNUITY PROGRAM | | \$279,625 |
| TOTAL INVESTMENT EXPENSES** | | \$ 27,317,664 |

**This total does not include \$10,738,104 Variable A & B 2003 Provisions.

See Notes of Financial Statements No. 7 for the Corpus Expenses.

**SCHEDULE 5: PROFESSIONAL FEES
Year Ended June 30, 2003 (Unaudited)**

| PROFESSIONAL | NATURE OF SERVICE | |
|-----------------------------|---------------------|--------------------|
| Buck Consultants | Consulting | \$243,595 |
| Citibank | Custody Services | 46,738 |
| CRA RogersCasey | Consulting | 147,495 |
| Pacific Group | Investment Advisors | 389,412 |
| Rocaton Investment Advisors | Investment Advisors | 345,845 |
| TOTAL | | \$1,173,085 |



3. Investment Section

TEACHERS' RETIREMENT SYSTEM OF THE CITY OF NEW YORK

INVESTMENT SUMMARY

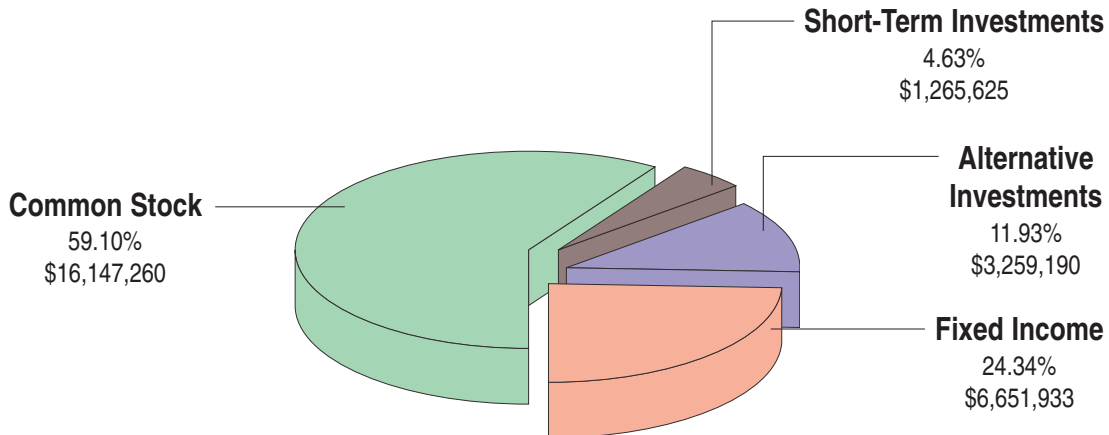
As of June 30, 2003

| Type of Investment | Market Value In Thousands | Percent of Total Market Value |
|--|--------------------------------------|--|
| Fixed Income: | | |
| Government Bonds | \$3,674,856 | 13.45% |
| Corporate Bonds | 2,610,058 | 9.55 |
| Foreign Bonds | 367,019 | 1.34 |
| Preferred Stock | 0 | 0 |
| Total Fixed Income | \$6,651,933 | 24.34% |
| Common Stock: | | |
| Financial & Utility | \$6,107,453 | 22.35% |
| Basic Industry | 2,640,463 | 9.67 |
| Consumer & Service | 5,390,694 | 19.73 |
| Technological | 2,008,650 | 7.35 |
| Total Common Stock | \$16,147,260 | 59.10% |
| Alternative Investments: | | |
| Guaranteed Investment Contracts (GICs) | \$ 92,500 | 0.34% |
| Managed Investment Contracts | 195,852 | 0.72 |
| International | 2,970,838 | 10.87 |
| Mortgages | 0 | 0 |
| Total Alternative Investments | \$3,259,190 | 11.93% |
| Short-Term Investments: | | |
| Short-Term Investment | \$1,251,409 | 4.58% |
| Commercial Paper | 14,216 | 0.05 |
| Total Short-Term Investments | \$1,265,625 | 4.63% |
| Total | \$27,324,008* | 100.00% |

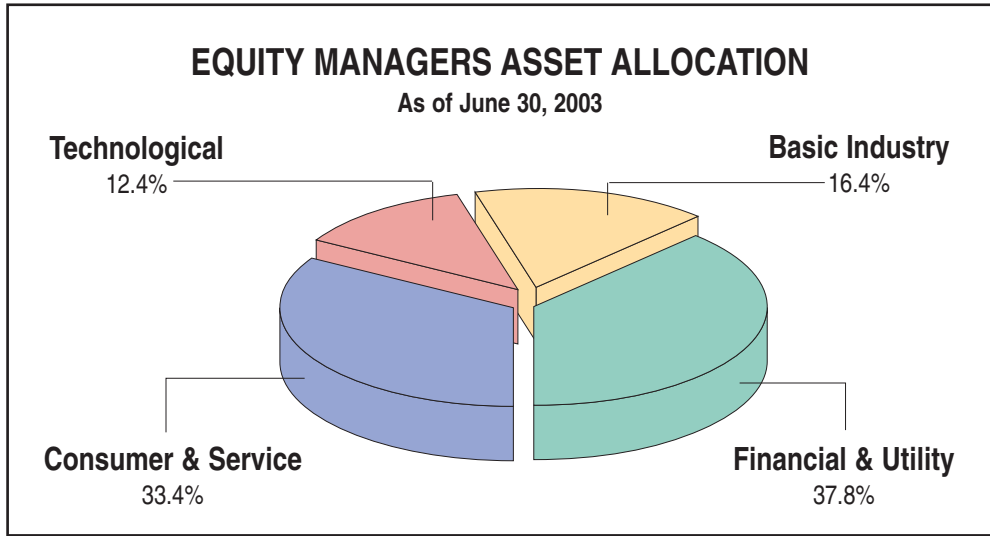
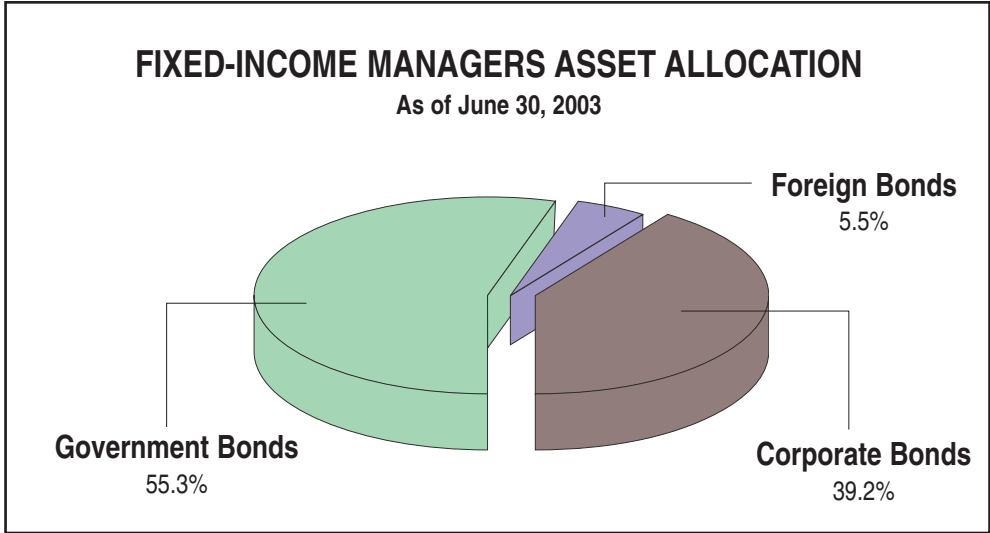
TOTAL ASSET ALLOCATION*

As of June 30, 2003

In Thousands

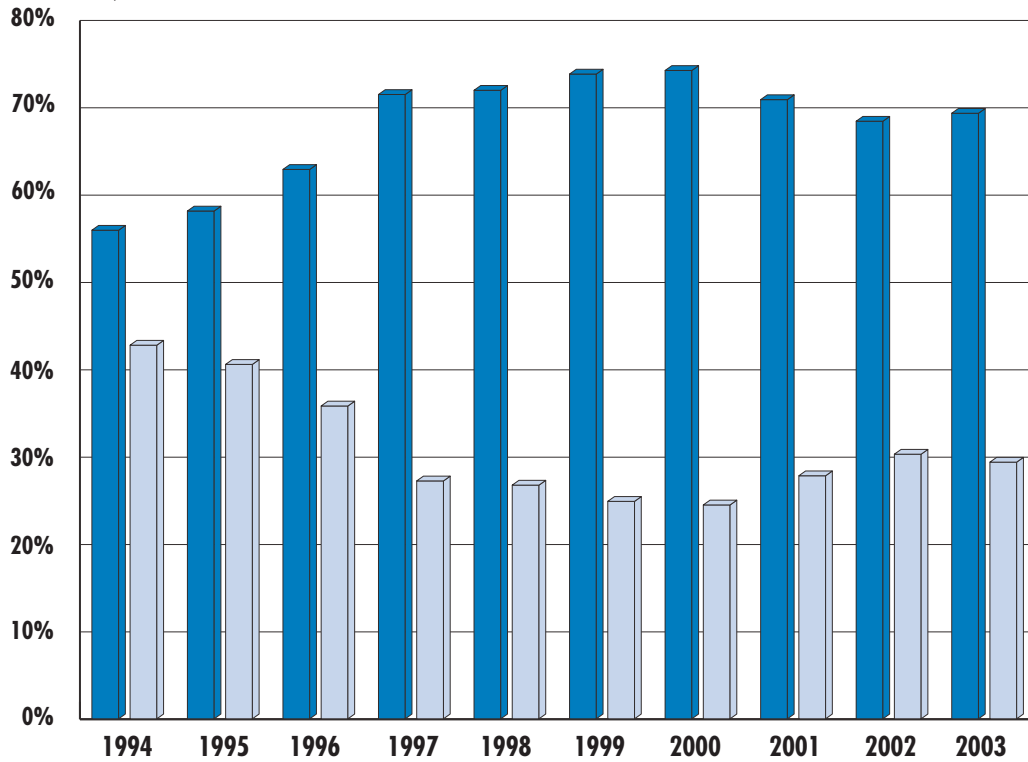


* Excludes \$4,440,374 in securities-lending.



TEACHERS' RETIREMENT SYSTEM OF THE CITY OF NEW YORK

CHANGES IN ASSET ALLOCATION FOR EQUITY AND FIXED-INCOME ASSETS OVER 10-YEAR PERIOD



| Year | Equity | Fixed Income |
|------|--------|--------------|
| 1994 | 56.58 | 43.42 |
| 1995 | 58.78 | 41.22 |
| 1996 | 63.54 | 36.46 |
| 1997 | 72.12 | 27.88 |
| 1998 | 72.60 | 27.40 |
| 1999 | 74.46 | 25.54 |
| 2000 | 74.87 | 25.13 |
| 2001 | 71.53 | 28.47 |
| 2002 | 69.06 | 30.94 |
| 2003 | 69.97 | 30.03 |

TEACHERS' RETIREMENT SYSTEM OF THE CITY OF NEW YORK

ANNUALIZED INVESTMENT RESULTS*

As of June 30, 2003

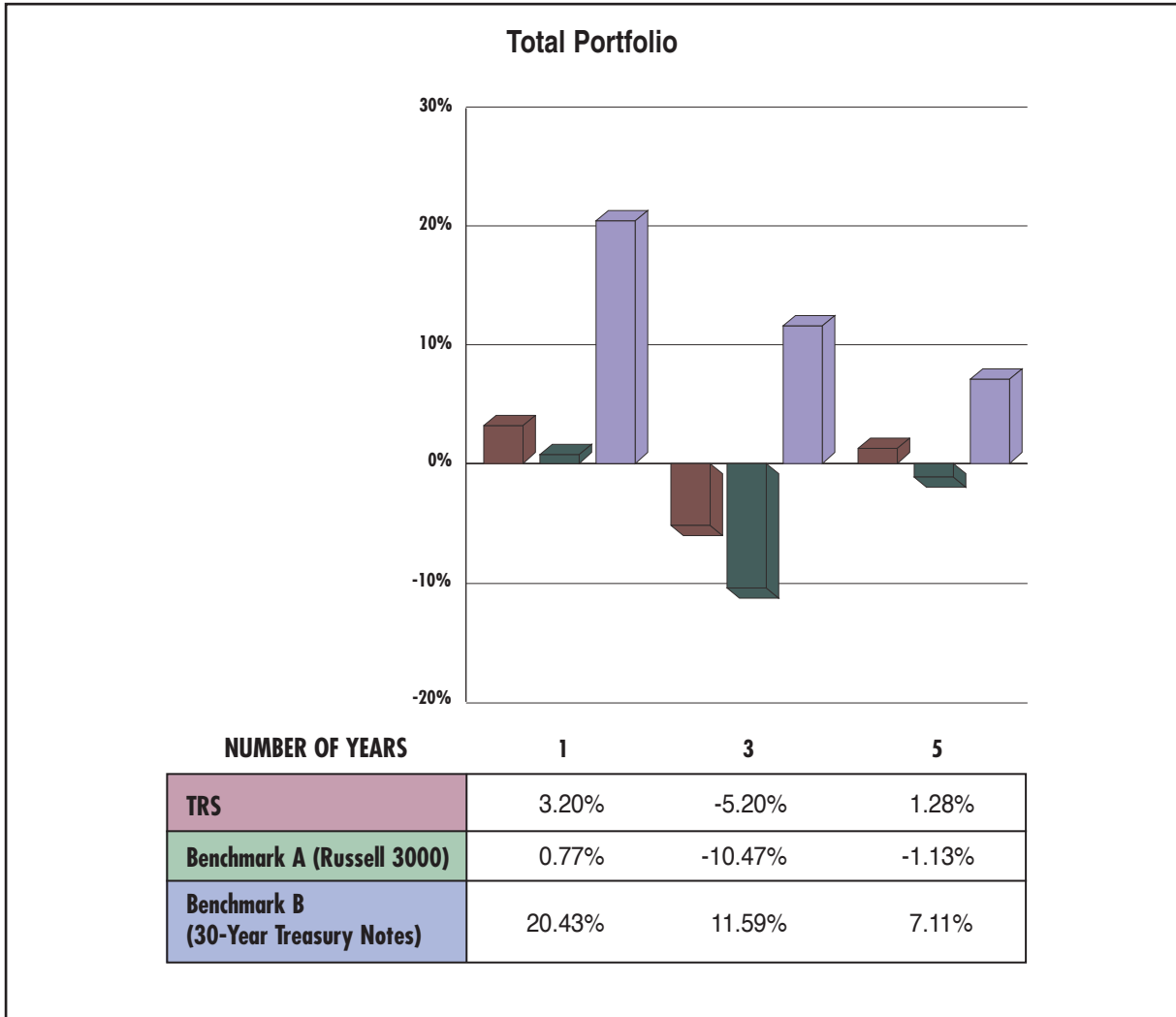
| | Current Year 2003 | Annualized 3-Year | Annualized 5-Year |
|---|----------------------|----------------------|----------------------|
| Total Portfolio (TRS) | 3.20% | -5.20% | 1.28% |
| Benchmark A (Russell 3000) | 0.77 | -10.47 | -1.13 |
| Benchmark B (30-Year Treasury Notes) | 20.43 | 11.59 | 7.11 |
| Equity Segment (TRS) | -0.55 | -10.22 | -0.98 |
| Benchmark A (Standard & Poor's 500) | -0.26 | -11.20 | -1.59 |
| Benchmark B (Russell 3000) | -0.77 | -10.47 | -1.13 |
| Fixed-Income Segment (TRS) | 12.34 | 9.39 | 6.88 |
| Benchmark A (5-Year Treasury Notes) | 11.78 | 10.42 | 7.61 |
| Benchmark B (30-Year Treasury Notes) | 20.43 | 11.59 | 7.11 |
| Guaranteed Investment Contracts (GICs) (TRS) | 3.57 | 4.98 | 5.26 |
| Benchmark A (GICs —2-Year Treasury Notes) | 5.64 | 7.09 | 5.89 |
| Benchmark B | - | - | - |
| Cash-Equivalents Segment (TRS) | 1.96 | 4.68 | 5.02 |
| Benchmark A (30-Year Treasury Notes) | 20.43 | 11.59 | 7.11 |
| Benchmark B | - | - | - |

* The calculations were prepared using a time-weighted rate of return based on the market rate of return in accordance with the Association for Investment Management & Research's (AIMR's) Performance Presentation Standards.

TEACHERS' RETIREMENT SYSTEM OF THE CITY OF NEW YORK

ANNUALIZED INVESTMENT RESULTS

As of June 30, 2003

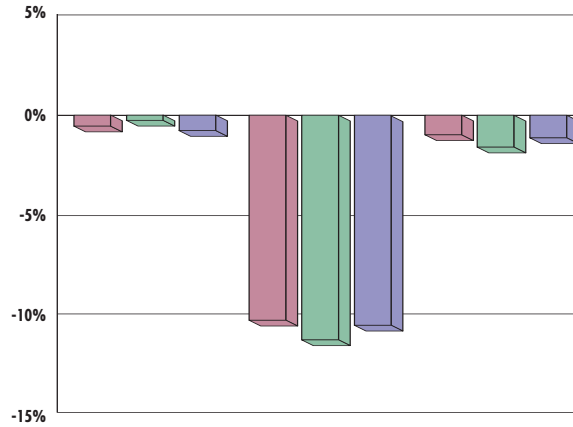


TEACHERS' RETIREMENT SYSTEM OF THE CITY OF NEW YORK

ANNUALIZED INVESTMENT RESULTS (Continued)

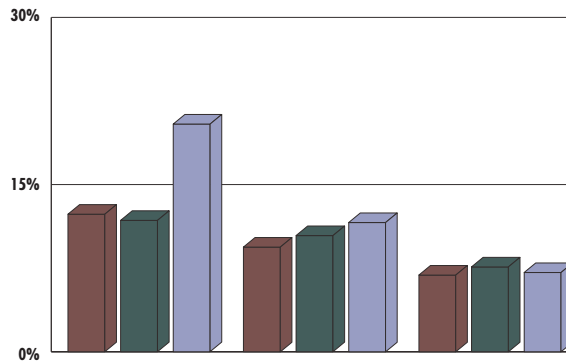
As of June 30, 2003

Equity Segment



| NUMBER OF YEARS | 1 | 3 | 5 |
|--|--------|---------|--------|
| TRS | -0.55% | -10.22% | -0.98% |
| Benchmark A (Standard & Poor's 500) | -0.26% | -11.20% | -1.59% |
| Benchmark B (Russell 3000) | -0.77% | -10.47% | -1.13% |

Fixed-Income Segment



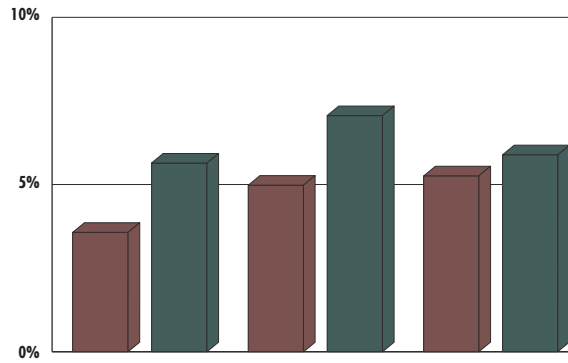
| NUMBER OF YEARS | 1 | 3 | 5 |
|---|--------|--------|-------|
| TRS | 12.34% | 9.39% | 6.88% |
| Benchmark A (5-Year Treasury Notes) | 11.78% | 10.42% | 7.61% |
| Benchmark B (30-Year Treasury Notes) | 20.43% | 11.59% | 7.11% |

TEACHERS' RETIREMENT SYSTEM OF THE CITY OF NEW YORK

ANNUALIZED INVESTMENT RESULTS (Continued)

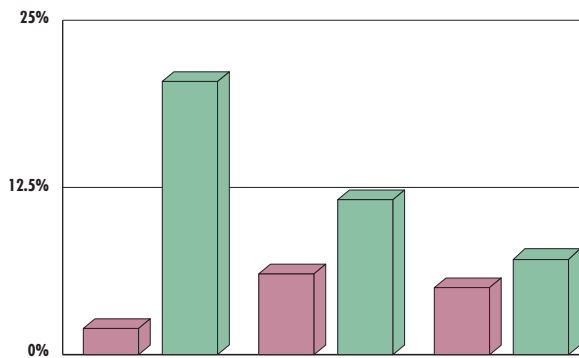
As of June 30, 2003

Guaranteed Investment Contracts (GICs)



| NUMBER OF YEARS | 1 | 3 | 5 |
|---|-------|-------|-------|
| TRS | 3.57% | 4.98% | 5.26% |
| Benchmark A (GICs-2-Year Treasury Notes) | 5.64% | 7.09% | 5.89% |

Cash-Equivalents Segment



| NUMBER OF YEARS | 1 | 3 | 5 |
|---|--------|--------|-------|
| TRS | 1.96% | 4.68% | 5.02% |
| Benchmark A (30-Year Treasury Notes) | 20.43% | 11.59% | 7.11% |

TEACHERS' RETIREMENT SYSTEM OF THE CITY OF NEW YORK

**LIST OF LARGEST BOND ASSETS HELD
(BY MARKET VALUE)**

As of June 30, 2003

| Par Value | | Interest Rate | Due Date | Market Value |
|----------------|---|---------------|----------|----------------|
| \$ 115,060,000 | Federal Nat Mtg Assn Gtd Pass Ctf Pool #T/B/A | 5.500% | 07/01/33 | \$ 118,925,297 |
| 111,800,000 | Federal Home Ln Mtg Corp PC Gold Group #T/B/A | 6.500 | 07/01/33 | 116,638,844 |
| 77,910,000 | United States Treasury Bonds | 6.375 | 08/15/27 | 97,606,427 |
| 61,480,000 | United States Treasury Bonds | 8.125 | 08/15/19 | 88,915,450 |
| 82,200,000 | Federal Nat Mtg Assn Gtd Pass Ctf Pool #T/B/A | 6.000 | 07/01/33 | 85,243,969 |
| 55,925,000 | Federal Nat Mtg Assn Gtd Pass Ctf Pool #T/B/A | 6.500 | 07/01/33 | 58,345,504 |
| 42,000,000 | Federal Home Ln Mtg Corp PC G Group #T/B/A | 6.000 | 08/01/33 | 43,542,187 |
| 41,174,816 | Federal Nat Mtg Assn Gtd Pass Ctf #CL | 6.500 | 01/01/33 | 42,938,334 |
| 42,450,000 | Federal Nat Mtg Assn Gtd Pass Ctf Pool #T/B/A | 5.000 | 09/01/33 | 42,788,273 |

**LIST OF LARGEST EQUITY ASSETS HELD
(BY MARKET VALUE)**

As of June 30, 2003

| Shares | Equity | Market Value |
|-----------|-----------------------------------|--------------|
| 1,306,788 | Citigroup Inc. | \$55,930,527 |
| 2,049,000 | Microsoft Corp. | 52,536,360 |
| 1,774,700 | General Electric Co. | 50,898,396 |
| 1,436,325 | Pfizer Inc. | 49,050,499 |
| 727,172 | Merck & Co. Inc. | 44,030,265 |
| 1,204,710 | Exxon Mobil Corp. | 43,261,136 |
| 751,400 | Johnson & Johnson | 38,847,380 |
| 441,922 | Bank America Corp. | 34,925,096 |
| 623,500 | Wal-Mart Stores Inc. | 33,463,245 |
| 322,900 | Proctor & Gamble Co. | 28,796,222 |
| 860,300 | Dell Computer Corp. | 27,391,952 |
| 459,175 | American International Group Inc. | 25,337,277 |
| 302,200 | International Business Machines | 24,931,500 |
| 1,164,224 | Hewlett InternationalPackard Co. | 24,797,971 |
| 886,635 | SBC Communications Inc. | 22,653,524 |
| 1,319,150 | AOL Time Warner Inc. | 21,225,124 |
| 308,100 | Fannie Mae | 20,778,264 |
| 457,442 | Viacom Inc. | 19,971,918 |
| 413,400 | Coca-Cola Co. | 19,185,894 |
| 366,035 | Wells Fargo & Co. | 18,448,164 |

Note: The above tables reflect assets of both the Qualified Pension Plan (QPP) and Tax-Deferred Annuity (TDA) Program. The complete list of the assets held by TRS' three investment programs is included in the publication *Investment Portfolios*.

TEACHERS' RETIREMENT SYSTEM OF THE CITY OF NEW YORK

**SCHEDULE OF INVESTMENT MANAGERS AND OTHER SERVICE FEES
(BY CATEGORY)**

For The Fiscal Year Ended June 30, 2003
(In Thousands)

| | Assets under Management | Fees | Percent of Fees Over Assets |
|--------------------------------------|----------------------------|--------------|--------------------------------|
| INVESTMENT MANAGERS' FEES | | | |
| Fixed Income Managers | \$6,651,933 | \$ 9,294 | 0.140% |
| Equity Managers | 19,118,098 | 16,626 | 0.085% |
| Other | <u>288,352</u> | <u>168</u> | 0.058% |
| TOTAL INVESTMENT MANAGERS' FEES | \$26,058,383* | \$26,088 | 0.100% |
| OTHER INVESTMENT SERVICE FEES | | | |
| Custodian fees | \$27,324,008** | \$ 103 | 0.0003% |
| Investment Consultant fees | 31,764,382 | <u>1,126</u> | 0.0035% |
| TOTAL INVESTMENT SERVICE FEES | | \$ 1,229 | 0.004% |

* Excludes \$1,265,625 in short-term and \$4,440,374 in securities-lending.

** Excludes \$4,440,374 in securities-lending.

TEACHERS' RETIREMENT SYSTEM OF THE CITY OF NEW YORK

PARTICIPATING EMPLOYERS

Department of Education
City University of New York

SUMMARY OF INVESTMENT MANAGERS

PENSION FUND INVESTMENT MANAGERS

Equity

Aeltus Investment Mgmt., Inc.
Ariel Capital Management, Inc.
Bank of Ireland Asset Management (U.S.) Limited
Barclays Global Investors, N.A.
Capital Guardian Trust Company
Chicago Equity Partners, L.L.C.
Delaware International Advisors, Ltd.
GE Asset Management, Inc.
INVESCO Institutional N.A., Inc.
Mellon Capital Management Corporation
Putnam Advisory Company, L.L.C.
Schroder Investment Management N.A., Inc.
Sprucegrove Investment Management Ltd.
Westpeak Investment Advisors L.P.

Enhanced Yield/Alternative

AFL-CIO Housing Investment
Allegra Capital Partners IV, L.P.
Alliance Capital Management, L.P.
Apollo Investment Fund
The Blackstone Group
Canyon-Johnson Realty Advisors
The Carlyle Group
Coller Investment Management, Ltd.
Credit Suisse Asset Management, L.L.C.
Cypress Associates
FdG Capital Partners L.L.C.

Fixed Income

BlackRock Financial Management, Inc.
Credit Suisse Asset Management, L.L.C.
Fischer, Francis, Trees & Watts, Inc.
Lincoln Capital Fixed Income Management Company
Miller, Anderson & Sherrerd, L.L.P.
Pacific Investment Management Company (PIMCO)
T. Rowe Price Associates, Inc.
Taplin, Canida & Habacht

REITS

Lend Lease Rosen Real Estate Sec., L.L.C.
Morgan Stanley Investment Partners, L.P.

Freeman Spolgi & Co., Inc.
Lincolnshire Management, Inc.
Loomis, Sayles & Co., L.P.
Lumina Ventures
New Mountain Investments
Oaktree Capital Management
RRE Ventures
Ripplewood Holdings, L.L.C.
SCP Private Equity Partners
Solera Capital, L.L.C.
W.R. Huff Asset Management Co., L.L.C.

VARIABLE A INVESTMENT MANAGERS

Alliance Capital Management L.P.
Amalgamated Bank
Bank of Ireland Asset Management (U.S.) Limited
Barclays Global Investors, N.A.
Capital Guardian Trust Company
Enhanced Investment Technologies, Inc. (INTECH)
Fidelity Management Trust Company
Freedom Capital Management, L.L.C.
Goldman Sachs Asset Management

Mellon Capital Management Corporation
New South Capital Management, Inc.
Pacific Investment Management Company (PIMCO)
PanAgora Asset Management, Inc.
Putnam Fiduciary Trust Company
Sound Shore Management, Inc.
Trust Company of the West
UBS Global Asset Management Trust Co.

VARIABLE B INVESTMENT MANAGERS

NISA Investment Advisors, L.L.C.
Standish Mellon Asset Management, L.L.C.



4. Actuarial Section

TEACHERS' RETIREMENT SYSTEM OF THE CITY OF NEW YORK



OFFICE OF THE ACTUARY

75 PARK PLACE • 9TH FLOOR
NEW YORK, NY 10007
(212) 442-5775 • FAX: (212) 442-5777

ROBERT C. NORTH, JR.
CHIEF ACTUARY

November 20, 2003

Retirement Board
Teachers' Retirement System
of the City of New York
55 Water Street, 16th Floor
New York, NY 10041

Re: Actuarial Information for the Comprehensive Annual
Financial Report ("CAFR") for the Fiscal Year ended
June 30, 2003

Dear Members:

The financial objective of the Teachers' Retirement System of the City of New York—Qualified Pension Plan (the "Plan") is to fund members' retirement benefits during their active service and to establish employer normal contribution rates which, expressed as a percentage of active member annualized covered payroll, will remain approximately level over the future working lifetimes of those active members and, together with member contributions, will be sufficient to accumulate assets to pay benefits when due.

Employer contributions to the Plan are made on a statutorily-required basis based on actuarial valuations performed annually as of June 30.

Statutorily-required contributions for Fiscal Year 2003 were less than the annual required contributions as defined under Governmental Accounting Standards Board Statement Number 25 ("GASB 25"). This relationship occurs because Chapter 125 of the Laws of 2000 ("Chapter 125/00"), which provides eligible retirees and eligible beneficiaries with supplementation benefits effective September 2000 and with automatic Cost-of-Living Adjustments ("COLA") beginning September 2000, also provides for a phase-in schedule later modified by Chapter 278 of the Laws of 2002 ("Chapter 278/02"), for funding the additional liabilities created by the benefits provided by Chapter 125/00.

TEACHERS' RETIREMENT SYSTEM OF THE CITY OF NEW YORK

Retirement Board
Teachers' Retirement System
of the City of New York
Page 2

The annual required contributions were computed in accordance with GASB 25 and are consistent with generally accepted actuarial principles.

Actuarial Assumptions and Methods in Effect as of June 30, 2002

Provided in this Actuarial Section of the CAFR is a "Summary of Actuarial Assumptions and Methods in Effect as of June 30, 2002." These actuarial assumptions and methods were employed in the June 30, 2002 actuarial valuation that was used to determine Fiscal Year 2003 employer contributions to the Plan.

These actuarial assumptions and methods are generally the same as those employed in the June 30, 2001 actuarial valuation that was used to determine Fiscal Year 2002 employer contributions to the Plan.

Benefits and Census Data

A summary of the benefits available under the Plan is shown later in this Actuarial Section of the CAFR.

Census data are submitted by the Plan's administrative staff, by the employers' payroll facilities, and by the Comptroller of the City of New York, and are reviewed by the Office of the Actuary for consistency and reasonability.

A summary of the census data as of June 30, 2002 is included in this CAFR. A summary of the census data used in the June 30, 2001 actuarial valuation of the Plan is available in the June 30, 2002 CAFR.

TEACHERS' RETIREMENT SYSTEM OF THE CITY OF NEW YORK

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Teachers' Retirement System
of the City of New York
Page 3

Funded Status

The Funded Status of the Plan is usually expressed in various relationships of Assets to Liabilities.

With respect to the funded status of the Plan, included in the Financial Section of the CAFR is a Schedule of Funding Progress (Schedule 1).

Included in the Actuarial Section of the CAFR is a Solvency Test (i.e., Comparative Summary of Actuarial Values and Percentages Covered by Actuarial Value of Assets) as prescribed by the Government Finance Officers Association ("GFOA"). This Solvency Test represents an alternative approach to describing progress toward funding objectives.

In addition to the Schedule of Funding Progress and the Solvency Test, included in the Actuarial Section of the CAFR (following the Solvency Test) are two Other Measures of Funded Status which provide different representations of the Assets and Liabilities of the Plan.

Presentation Style and Sources of Information

The actuarial information herein is being presented in a manner believed to be consistent with the requirements of the GFOA and, where applicable, with GASB 25, which was adopted for financial reporting purposes beginning Fiscal Year 1995.

As prescribed by GASB 25, included in the Financial Section of the CAFR are the following schedules:

- Schedule of Funding Progress – prepared by the Office of the Actuary.
- Schedule of Employer Contributions – prepared by the Office of the Actuary.
- Actuarial Assumptions and Methods – prepared by the Office of the Actuary.

TEACHERS' RETIREMENT SYSTEM OF THE CITY OF NEW YORK

Retirement Board
Teachers' Retirement System
of the City of New York
Page 4

The following supporting schedules in the Actuarial Section of the CAFR were prepared by the Office of the Actuary:

- Summary of Actuarial Assumptions and Methods in Effect as of June 30, 2002.
- Active Member Valuation Data.
- Retirants and Beneficiaries Added to and Removed from the Rolls.
- Summary of Plan Membership.
- Actual vs. Required Contributions.
- Comparative Summary of Actuarial Values and Percentages Covered by Actuarial Value of Assets - Solvency Test.
- Other Measures of Funded Status.
- Actual vs. Required Contributions.
- Chronology of Plan.
- Summary of Plan Provisions.

If you have any questions about any of the actuarial information in this Actuarial Section or elsewhere in this CAFR, please do not hesitate to contact Mr. Martin A. Einhorn or me.

Respectfully submitted,



Robert C. North, Jr., F.S.A.
Chief Actuary

cc: Mr. S.J. Kessock



5. Statistical Section

TEACHERS' RETIREMENT SYSTEM OF THE CITY OF NEW YORK

**SCHEDULE 1
REVENUE BY SOURCE (UNAUDITED)**

In Thousands

| Year Ended June 30 | Net Member Contributions | Employer Contributions | Net Investment Income | Other | Total | Employer Contributions as a Percentage of Annual Covered Payroll |
|-----------------------|--------------------------------|---------------------------|-----------------------------|---------|-------------|--|
| | | | | | | |
| 1994 | \$74,824 | \$397,514 | \$647,224 | \$0 | \$1,119,562 | 11.6% |
| 1995 | 62,283 | 379,987 | 3,328,461 | 0 | 3,770,731 | 11.2* |
| 1996 | 89,615 | 405,872 | 3,517,358 | 0 | 4,012,845 | 11.1* |
| 1997 | 97,261 | 366,141 | 5,089,064 | 0 | 5,552,466 | 10.4* |
| 1998 | 76,570 | 439,898 | 5,648,628 | 0 | 6,165,096 | 12.4* |
| 1999 | 99,903 | 453,946 | 4,505,546 | 0 | 5,058,795 | 11.7* |
| 2000 | 118,155 | 202,758 | 3,704,203 | 0 | 4,025,116 | 4.8* |
| 2001 | 129,783 | 466,289 | (3,805,107) | 0 | (3,209,035) | 9.9* |
| 2002 | 87,386 | 531,952 | (3,179,469) | (631) | (2,560,762) | 10.6* |
| 2003 | 81,877 | 660,915 | 784,221 | (7,888) | 1,519,125 | 12.1* |

Note: Member contributions are shown net of loans to members.

1995 to 2003 are calculated using active members' salaries on the preceding June 30th.

**SCHEDULE 2
EXPENSE BY TYPE (UNAUDITED)**

In Thousands

| Year Ended June 30 | Benefit Payments | Refunds | Other | Total | Employer Contributions as a Percentage of Annual Covered Payroll |
|-----------------------|---------------------|-------------|----------|-------------|--|
| | | | | | |
| 1994 | \$1,090,865 | \$16,411 | \$9,252 | \$1,116,528 | 11.6% |
| 1995 | 1,136,611* | 15,101 | 6,908 | 1,158,620 | 11.2** |
| 1996 | 1,421,614* | 62,618 | 3,584 | 1,487,816 | 11.1** |
| 1997 | 1,612,938* | 60,599 | (1,552) | 1,671,985 | 10.4** |
| 1998 | 1,650,368* | 31,006 | 13,051 | 1,694,425 | 12.4** |
| 1999 | 1,779,610* | 45,151 | (18,617) | 1,806,144 | 11.7** |
| 2000 | 2,718,101*** | 40,796 | (20,630) | 2,738,267 | 4.8** |
| 2001 | 1,878,760* | 80,116 | (9,706) | 1,949,170 | 9.9** |
| 2002 | 2,095,132* | 126,425**** | 0 | 2,221,557 | 10.6 |
| 2003 | 2,433,983 | 33,067 | 0 | 2,467,050 | 12.1* |

* Including Administrative expenses of \$7,891 for 1995, \$9,085 for 1996, \$15,909 for 1997, \$25,058 for 1998, \$27,005 for 1999, \$30,575 for 2001, \$32,523 for 2002, and \$35,455 for 2003.

** 1995 to 2001 are calculated using active members' salaries on the preceding June 30th.

*** Including Administrative expenses of \$29,732 and BSL of \$838,285.

**** Including \$27,356 of Chapter 126/00 contribution refunds.

TEACHERS' RETIREMENT SYSTEM OF THE CITY OF NEW YORK

SCHEDULE OF PARTICIPATING EMPLOYERS

As of June 30, 2002

| Employer | Number of In-Service Members | Annual Payroll |
|--|---------------------------------|------------------------|
| NYC Dept. of Education and City University of New York | 95,600 | \$5,465,323,641 |
| NYC School Construction Authority | 2 | 140,439 |
| Charter Schools | | |
| Beginning with Children | 30 | \$1,371,268 |
| Kipp Academy | 8 | 473,015 |
| Renaissance | 30 | 1,480,873 |
| Wildcat | 8 | 450,047 |
| SUBTOTAL | 76 | \$3,775,203 |
| TOTAL | 95,678* | \$5,469,239,283 |

* Includes only current in-service members receiving salary as of each June 30th.

AVERAGE SALARIES OF IN-SERVICE MEMBERS

As of June 30, 2002

| MEN | | | WOMEN | | |
|--------------|---------------------------------|---------------------|--------------|---------------------------------|---------------------|
| Age | Number of In-Service Members | Average Salaries | Age | Number of In-Service Members | Average Salaries |
| 24 & under | 160 | \$ 35,458 | 24 & under | 1,144 | \$ 36,262 |
| 25-29 | 1,176 | 41,465 | 25-29 | 6,503 | 41,034 |
| 30-34 | 2,128 | 49,205 | 30-34 | 7,561 | 46,516 |
| 35-39 | 2,079 | 54,238 | 35-39 | 6,731 | 49,329 |
| 40-44 | 2,349 | 59,037 | 40-44 | 7,814 | 51,000 |
| 45-49 | 2,853 | 62,852 | 45-49 | 10,507 | 54,729 |
| 50-54 | 4,552 | 72,539 | 50-54 | 14,411 | 62,476 |
| 55-59 | 4,786 | 77,101 | 55-59 | 11,246 | 64,229 |
| 60-64 | 1,434 | 72,429 | 60-64 | 5,088 | 58,793 |
| 65-69 | 530 | 69,197 | 65-69 | 1,692 | 57,602 |
| 70 & over | 230 | 69,814 | 70 & over | 704 | 54,924 |
| TOTAL | 22,277* | \$ 64,896 | TOTAL | 73,401* | \$ 54,816 |

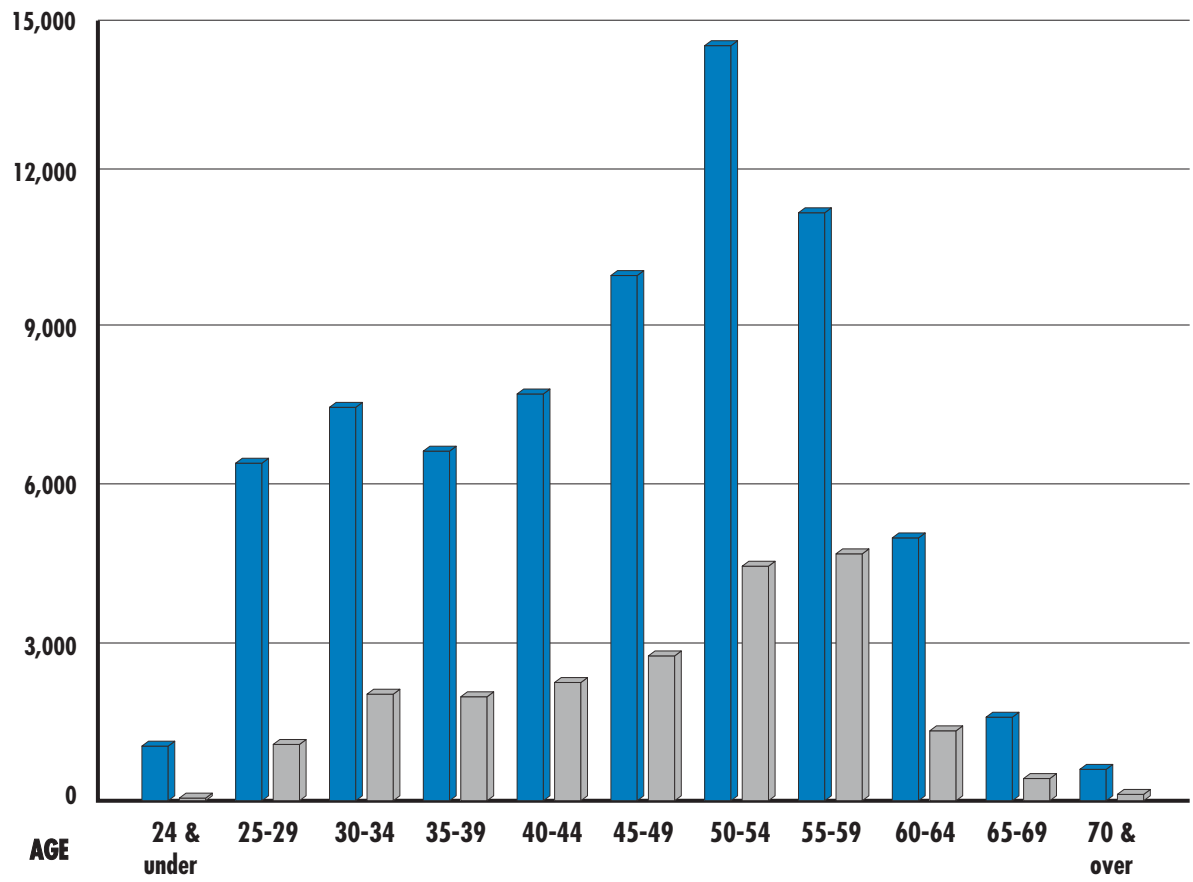
| | | | |
|-----------------------|------------------|-----------------------|------------------|
| TOTAL ANNUAL SALARIES | \$ 1,445,697,000 | TOTAL ANNUAL SALARIES | \$ 4,023,542,000 |
|-----------------------|------------------|-----------------------|------------------|

* The member count and the annual payroll include only those who were on the June 30th payroll.

TEACHERS' RETIREMENT SYSTEM OF THE CITY OF NEW YORK

IN-SERVICE MEMBERS ON PAYROLL—DISTRIBUTION BY AGE

As of June 30, 2002



| | | | | | | | | | | | |
|--------------|-------|-------|-------|-------|-------|--------|--------|--------|-------|-------|-----|
| WOMEN | 1,144 | 6,503 | 7,561 | 6,731 | 7,814 | 10,507 | 14,411 | 11,246 | 5,088 | 1,692 | 704 |
| MEN | 160 | 1,176 | 2,128 | 2,079 | 2,349 | 2,853 | 4,552 | 4,786 | 1,434 | 530 | 230 |

TEACHERS' RETIREMENT SYSTEM OF THE CITY OF NEW YORK

SCHEDULE OF BENEFIT EXPENSES BY TYPE

In Thousands

| Year Ended June 30 | Retirement Benefits | Death Benefits | Total Benefit Payments |
|-------------------------------|--------------------------------|---------------------------|-----------------------------------|
| 1997 | \$1,414,393 | \$198,545 | \$1,612,938 |
| 1998 | 1,493,972 | 156,396 | 1,650,368 |
| 1999 | 1,604,299 | 175,311 | 1,779,610 |
| 2000 | 1,660,118 | 219,698 | 1,879,816* |
| 2001 | 1,748,006 | 130,754 | 1,878,760* |
| 2002 | 1,822,733 | 272,399 | 2,095,132* |

**Total Benefit Payment does not include the BSL of \$838,285.*

SCHEDULE OF AVERAGE ANNUAL BENEFIT PAYMENT AMOUNTS

| Year Ended June 30 | SERVICE RETIREMENT BENEFITS | | ORDINARY (NON-DUTY) DISABILITY BENEFITS | | ACCIDENTAL (DUTY) DISABILITY BENEFITS | | SURVIVORS' BENEFITS | |
|-----------------------------------|--|---|--|---|--|---|----------------------------|---------------------------------------|
| | Number | Average Annual Allowance | Number | Average Annual Allowance | Number | Average Annual Allowance | Number | Average Annual Benefit |
| 1997 | 45,171 | \$29,449 | 1,778 | \$14,407 | 417 | \$27,047 | 2,942 | \$16,070 |
| 1998 | 45,000 | 31,129 | 1,761 | 15,341 | 427 | 28,481 | 3,080 | 17,532 |
| 1999 | 45,215 | 33,200 | 1,755 | 16,960 | 426 | 30,019 | 3,129 | 19,375 |
| 2000 | 45,586 | 34,051 | 1,738 | 17,264 | 426 | 30,625 | 3,218 | 20,138 |
| 2001 | 46,637 | 35,041 | 1,727 | 18,551 | 431 | 32,972 | 3,184 | 21,216 |
| 2002 | 49,074 | 34,812 | 1,753 | 17,864 | 435 | 32,230 | 3,299 | 20,919 |

TEACHERS' RETIREMENT SYSTEM OF THE CITY OF NEW YORK

SERVICE RETIREMENT ALLOWANCES

As of June 30, 2002

| MEN | | | WOMEN | | |
|-------------------------------------|---------------------------|---------------------------------|-------------------------------------|---------------------------|---------------------------------|
| Age | Number of Retirees | Average Annual Allowance | Age | Number of Retirees | Average Annual Allowance |
| under 30 | 0 | — | under 30 | 0 | — |
| 30–34 | 0 | — | 30–34 | 0 | — |
| 35–39 | 0 | — | 35–39 | 0 | — |
| 40–44 | 0 | — | 40–44 | 0 | — |
| 45–49 | 0 | — | 45–49 | 0 | — |
| 50–54 | 16 | \$37,135 | 50–54 | 19 | \$35,947 |
| 55–59 | 2,467 | 47,968 | 55–59 | 2,639 | 41,425 |
| 60–64 | 2,951 | 46,977 | 60–64 | 4,754 | 37,131 |
| 65–69 | 2,907 | 44,912 | 65–69 | 5,602 | 31,739 |
| 70–74 | 2,952 | 41,965 | 70–74 | 6,006 | 29,806 |
| 75–79 | 2,356 | 38,510 | 75–79 | 5,326 | 28,020 |
| 80–84 | 1,421 | 35,871 | 80–84 | 3,709 | 25,319 |
| 85–89 | 754 | 34,131 | 85–89 | 2,384 | 24,595 |
| 90 & over | 516 | 39,277 | 90 & over | 2,295 | 27,688 |
| TOTAL | 16,340 | \$42,822 | TOTAL | 32,734 | \$30,814 |
| TOTAL ANNUAL ALLOWANCES PAID | | \$699,704,585 | TOTAL ANNUAL ALLOWANCES PAID | | \$1,008,667,050 |

ORDINARY DISABILITY RETIREMENT ALLOWANCES

As of June 30, 2002

| MEN | | | WOMEN | | |
|-------------------------------------|---------------------------|---------------------------------|-------------------------------------|---------------------------|---------------------------------|
| Age | Number of Retirees | Average Annual Allowance | Age | Number of Retirees | Average Annual Allowance |
| under 30 | 0 | — | under 30 | 0 | — |
| 30–34 | 0 | — | 30–34 | 0 | — |
| 35–39 | 0 | — | 35–39 | 5 | \$13,536 |
| 40–44 | 6 | \$15,053 | 40–44 | 20 | 14,387 |
| 45–49 | 14 | 14,956 | 45–49 | 42 | 14,130 |
| 50–54 | 54 | 21,644 | 50–54 | 142 | 19,699 |
| 55–59 | 116 | 24,063 | 55–59 | 211 | 19,772 |
| 60–64 | 66 | 18,738 | 60–64 | 213 | 14,506 |
| 65–69 | 42 | 17,955 | 65–69 | 125 | 13,224 |
| 70–74 | 37 | 17,809 | 70–74 | 100 | 12,798 |
| 75–79 | 33 | 18,707 | 75–79 | 90 | 14,455 |
| 80–84 | 32 | 26,893 | 80–84 | 114 | 17,132 |
| 85–89 | 30 | 27,813 | 85–89 | 128 | 19,297 |
| 90 & over | 18 | 33,241 | 90 & over | 115 | 15,913 |
| TOTAL | 448 | \$21,920 | TOTAL | 1,305 | \$16,471 |
| TOTAL ANNUAL ALLOWANCES PAID | | \$9,820,134 | TOTAL ANNUAL ALLOWANCES PAID | | \$21,494,604 |

TEACHERS' RETIREMENT SYSTEM OF THE CITY OF NEW YORK

ACCIDENT DISABILITY RETIREMENT ALLOWANCES

As of June 30, 2002

| MEN | | | WOMEN | | |
|-------------------------------------|---------------------------|---------------------------------|-------------------------------------|---------------------------|---------------------------------|
| Age | Number of Retirees | Average Annual Allowance | Age | Number of Retirees | Average Annual Allowance |
| under 30 | 0 | — | under 30 | 0 | — |
| 30–34 | 0 | — | 30–34 | 0 | — |
| 35–39 | 0 | — | 35–39 | 1 | \$10,106 |
| 40–44 | 2 | \$11,699 | 40–44 | 1 | 13,868 |
| 45–49 | 2 | 27,580 | 45–49 | 7 | 21,392 |
| 50–54 | 18 | 32,053 | 50–54 | 35 | 29,554 |
| 55–59 | 56 | 35,670 | 55–59 | 56 | 31,824 |
| 60–64 | 21 | 41,092 | 60–64 | 35 | 34,281 |
| 65–69 | 20 | 35,562 | 65–69 | 46 | 27,594 |
| 70–74 | 13 | 34,283 | 70–74 | 34 | 29,318 |
| 75–79 | 10 | 36,877 | 75–79 | 26 | 30,983 |
| 80–84 | 5 | 33,329 | 80–84 | 28 | 33,261 |
| 85–89 | 7 | 34,711 | 85–89 | 11 | 31,435 |
| 90 & over | 0 | — | 90 & over | 1 | 29,969 |
| TOTAL | 154 | \$35,398 | TOTAL | 281 | \$30,494 |
| TOTAL ANNUAL ALLOWANCES PAID | | \$5,451,265 | TOTAL ANNUAL ALLOWANCES PAID | | \$8,568,882 |

DEATH BENEFITS—QPP

As of June 30, 2002

| MEN | | | WOMEN | | |
|-----------------------------------|--------------------------------|-------------------------------|-----------------------------------|--------------------------------|-------------------------------|
| Age | Number of Beneficiaries | Average Annual Benefit | Age | Number of Beneficiaries | Average Annual Benefit |
| under 30 | 8 | \$16,378 | under 30 | 4 | \$7,350 |
| 30–34 | 2 | 4,474 | 30–34 | 6 | 18,668 |
| 35–39 | 9 | 9,843 | 35–39 | 5 | 12,690 |
| 40–44 | 6 | 14,508 | 40–44 | 19 | 9,542 |
| 45–49 | 14 | 13,539 | 45–49 | 17 | 9,921 |
| 50–54 | 29 | 9,173 | 50–54 | 37 | 20,260 |
| 55–59 | 38 | 17,821 | 55–59 | 105 | 24,665 |
| 60–64 | 49 | 20,907 | 60–64 | 128 | 30,441 |
| 65–69 | 65 | 17,284 | 65–69 | 168 | 27,979 |
| 70–74 | 79 | 19,213 | 70–74 | 292 | 25,468 |
| 75–79 | 122 | 19,053 | 75–79 | 381 | 22,099 |
| 80–84 | 164 | 17,979 | 80–84 | 447 | 21,122 |
| 85–89 | 150 | 13,423 | 85–89 | 409 | 20,030 |
| 90 & over | 170 | 15,335 | 90 & over | 376 | 21,341 |
| TOTAL | 905 | \$16,583 | TOTAL | 2,394 | \$22,558 |
| TOTAL ANNUAL BENEFITS PAID | | \$15,007,604 | TOTAL ANNUAL BENEFITS PAID | | \$54,004,885 |

PENSION FUND
Performance Highlights
 Fiscal Year 2003

Return: 4.01%

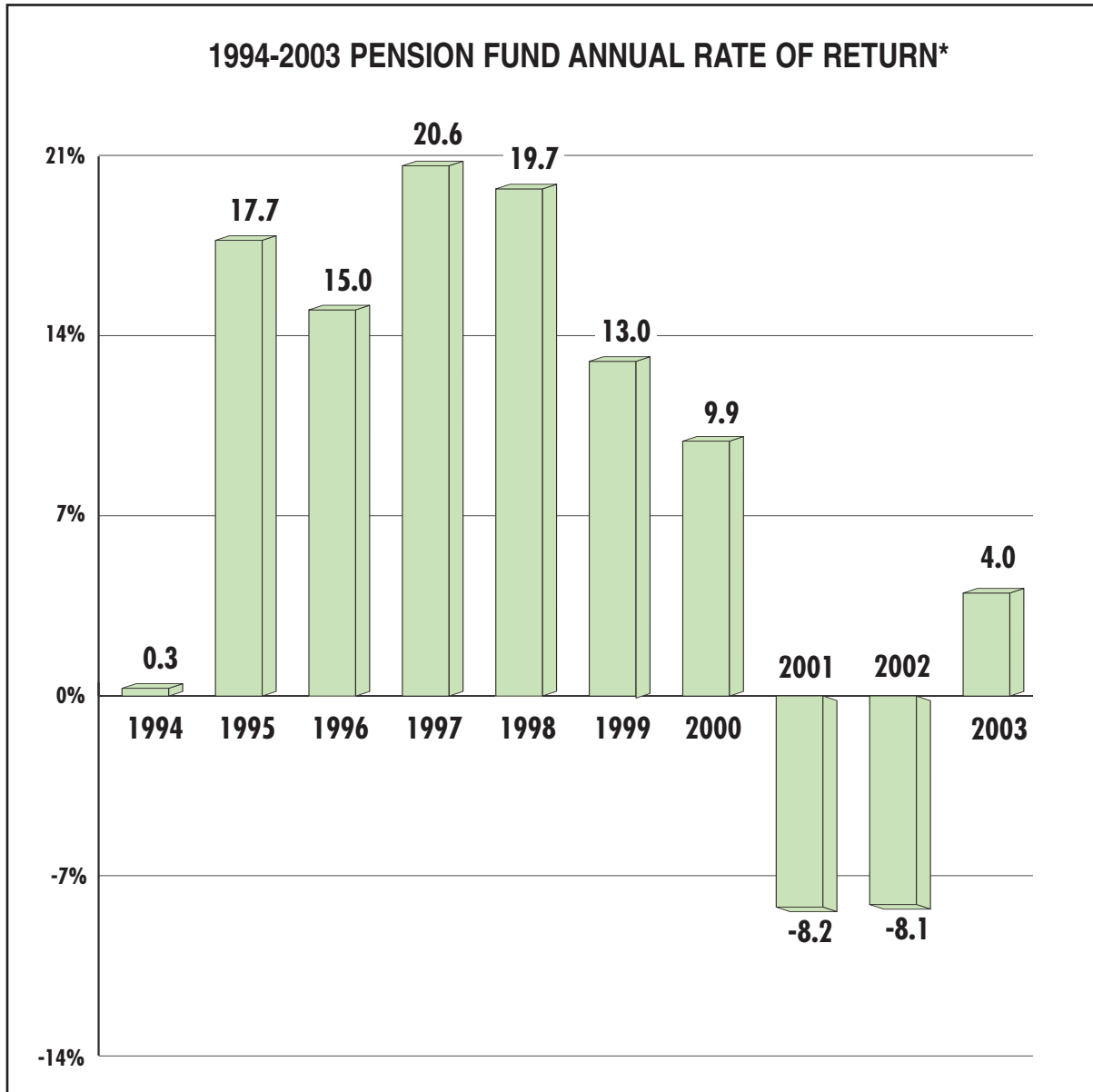
Total Investments: \$24.754 Billion

During Fiscal Year 2003, the Pension Fund's portfolio, consisting primarily of equities and fixed-income instruments, yielded a return of 4.01% after fees and expenses. This was a considerable increase from the -8.05% return for Fiscal Year 2002.

The Pension Fund includes all Fixed Annuity Program funds in the Qualified Pension Plan

(QPP) and all Tier III/IV QPP funds. The Fixed Annuity Program, which is available to Tier I and Tier II members for their QPP funds, currently provides participants with an 8.25% return. This rate is guaranteed through June 30, 2004; the rate is guaranteed not to fall below 7%.

The Comptroller of the City of New York invests the Pension Fund's holdings in a diversified portfolio, as authorized by the Teachers' Retirement Board. This portfolio consists almost entirely of U.S. and international equities and bonds.



* After expenses

VARIABLE A FUND
Performance Highlights

Fiscal Year 2003

Return: 0.30%

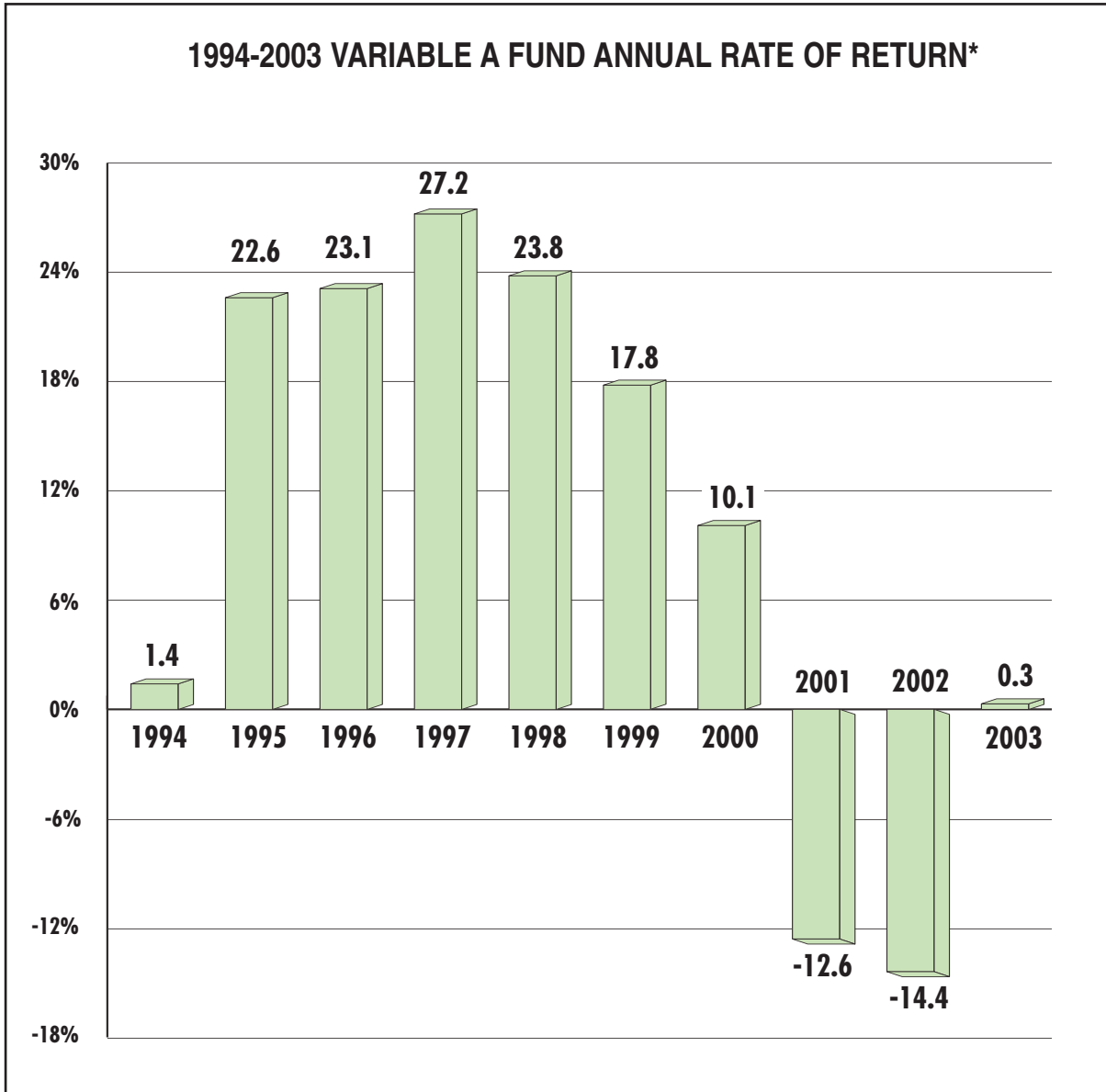
Total Investments: \$ 7.009 Billion

For the fiscal year ending June 30, 2003, Variable A returned 0.30% after fees and expenses. Because Variable A is invested in a diversified blend of investments that historically have made it less volatile than the overall U.S. equity market, Variable A slightly underperformed the composite benchmark's return of 1.63%. The composite benchmark, which includes no fees, provides a passive reflection of Variable A's actual asset allocation among domestic stocks, domestic fixed-income securities, and international equities.

As of June 30, 2003, approximately 82% of Variable A's portfolio was invested in the U.S. common stock market. Variable A's portfolio also contained approximately 14% in international stocks and approximately 4% in fixed-income securities, which contribute to portfolio diversification. Both fixed-income and international equity helped the performance of Variable A during Calendar Year 2002. However, during the fiscal year ending June 30, 2003, only fixed-income helped performance.

- The Passive Core sector returned 0.84%, slightly outperforming the Russell 3000 Index's return of 0.77%.
- The Active Domestic Equity sector returned 0.63%, underperforming the Russell 3000 Index by 14 basis points (-0.14%). This sector is predominately allocated to the risk-controlled composite, which returned 0.33%. A smaller allocation to the eclectic composite returned 1.54%.
- The Tactical Asset Allocation sector earned 4.94%, underperforming the sector's benchmark (60% S&P 500/40% Lehman Brothers Long Treasury Bond Index), which returned 8.47%. While relative performance in this sector lagged its respective benchmark, the absolute returns generated by this sector helped overall Variable A performance for the fiscal year.
- The International Equity sector returned -6.78%, underperforming this sector's benchmark by 72 basis points (-0.72%). While international equity's performance was not as compelling as that of U.S. equity over this short time period, international equity is included in the portfolio to diversify the overall mix within Variable A.

TEACHERS' RETIREMENT SYSTEM OF THE CITY OF NEW YORK



* After expenses

VARIABLE B FUND
Performance Highlights
 Fiscal Year 2003

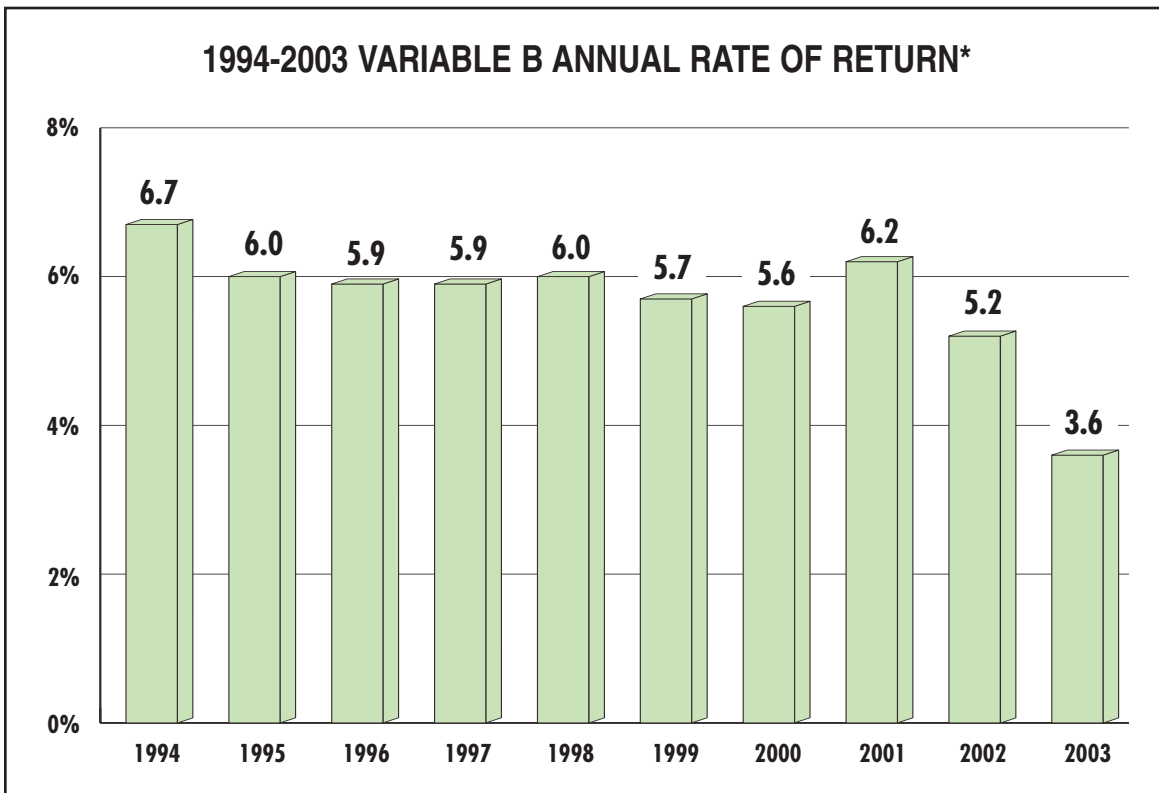
Return: 3.57%

Total Investments: \$0.576 Billion

Variable B's portfolio earned 3.57% after fees and expenses for the fiscal year ending June 30, 2003. Variable B's return lagged behind the Ryan Three-Year GIC Index, which yielded a return of 5.38%. This index measures the average of monthly yields for three-year Guaranteed Investment Contracts (GICs) issued by high-quality insurance companies. Likewise, Variable B, which is valued at cost or book value, underperformed a market-valued benchmark, the Merrill Lynch 1-3 Year Treasury Index. This index, with a 4.65% annual return, benefited greatly from declining interest rates during the previous 12 months.

Consistent with its objectives, Variable B's assets are invested in a well-diversified portfolio of stable-value investments, such as conventional and synthetic GICs. Conventional GICs are securities, issued by high-quality life insurance companies, which usually carry a fixed rate of interest for a stated time.

Synthetic GICs are also stable-value investments, but they consist of a single high-quality bond, or a portfolio of high-quality bonds, combined with a "wrapper." A wrapper is an insurance contract, issued by a high-quality financial institution, which ensures that participants can withdraw their money at book value (principal plus interest).



* After expenses